

Mongolian Trade & Logistics

Assessment and Recommendations



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(S.W.O.T.) Strengths



Major factors in each element is highlighted in **RED** and put in **BOLD**, in relations to transportation.

Strengths

1. Huge deposits of coal, copper, gold and energy related products
2. Established industry in cashmere
3. High quality livestock and processed meat
4. Integrated Customs Information Systems
5. **Successful transport corridors via dedicated express container block train services**

(S.W.O.T.) Weaknesses



Weaknesses (Impediments)

1. Huge geography with low population density
2. Low density in accessibility (measured by road and rail density)
3. Under-developed infrastructure in power supply and water
4. Economy is not diversified, relying on three sectors
5. High interest rate, resulting in high cost of borrowing and financing for business
6. **Relies on Trans-Siberian Highway for rail route**
7. **Relies on Xingang ports in PRC for sea route**
8. Lack of enterprises and logistics professionals in modern management (e.g Incoterms, FIATA)

(S.W.O.T.) Opportunities



Opportunities

1. Recent high prices for commodities increase bargaining power of country vs. miners
- 2. Landlocked between two largest economies result in opportunities for transit trade and transport**
3. PRC has huge energy requirements
4. Russia borders lack retail and commercial avenues
5. PRC's accession to TIR may result in breakthrough for road transport problems in Omnugobi
6. Tax-free privileges for exports to EU increase attractiveness of FTZs (esp. for Chinese firms to circumvent the export quotas by EU)

(S.W.O.T.) Threats



Threats

1. **New Euro-Asia Highway may result in trade diversion to the south (land transport)**
2. Development of ports, mega carriers and containerization reduce appeal of land transport (sea transport)
3. Volatile commodity prices may deter investments for exploration plans by miners
4. PRC's accession to TIR may result in severe competition for local trucking industry

Major Land Transport Routes in North Asia

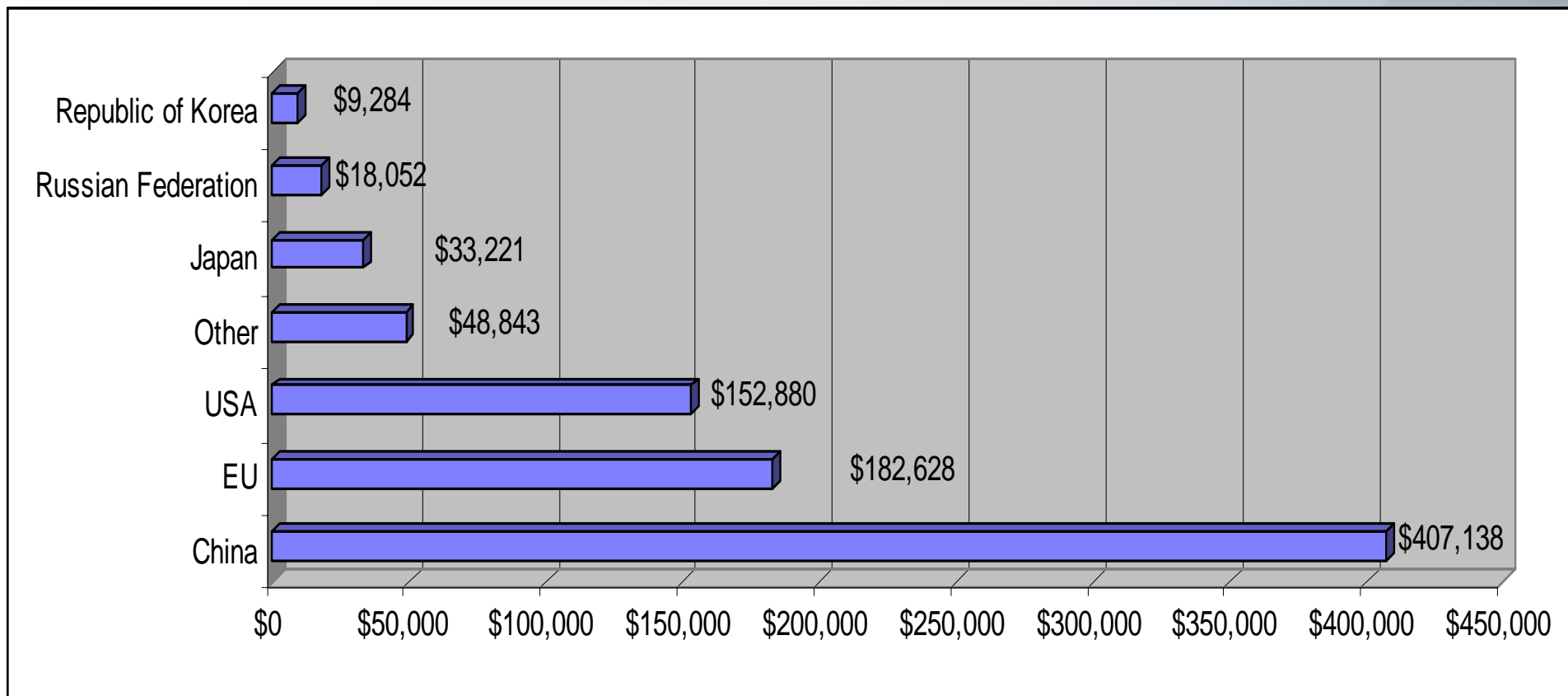


Exports by Countries, 2004



Units in US\$, 000s

Total Exports : US\$852,047,000



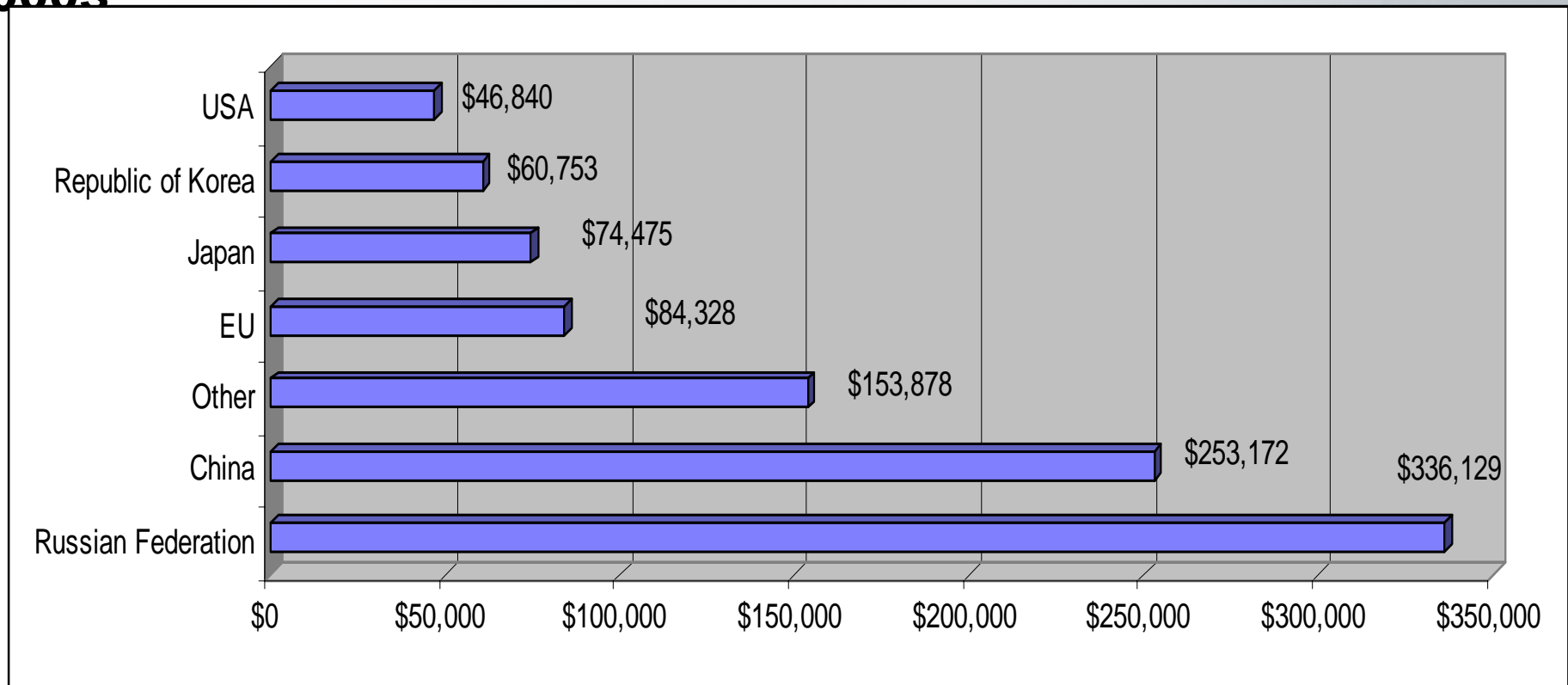
Source : Mongolian Customs General Administration

Imports by Countries, 2004



Units in US\$,
000s

Total Imports : US\$1,009,575,000



Source : Mongolian Customs General Administration

Total Trade by Countries, 2004



Units in US\$, 000s

Countries (Trade)	Export	Import	Total
EU	\$182,628	\$84,328.10	\$266,956.50
Russian Federation	\$18,052	\$336,128.80	\$354,181.10
			\$621,137.60
China	\$407,138	\$253,171.60	\$660,309.80
USA	\$152,880	\$46,839.80	\$199,719.60
Japan	\$33,221	\$74,474.80	\$107,695.70
Republic of Korea	\$9,284	\$60,753.30	\$70,037.60
			\$1,037,762.70
Other	\$48,843	\$153,878.40	\$202,721.80
	\$852,047	\$1,009,575	\$1,861,622



1. Country Profile

2. Industry Analysis

3. Free Trade Zones

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5. Recommendations (International)

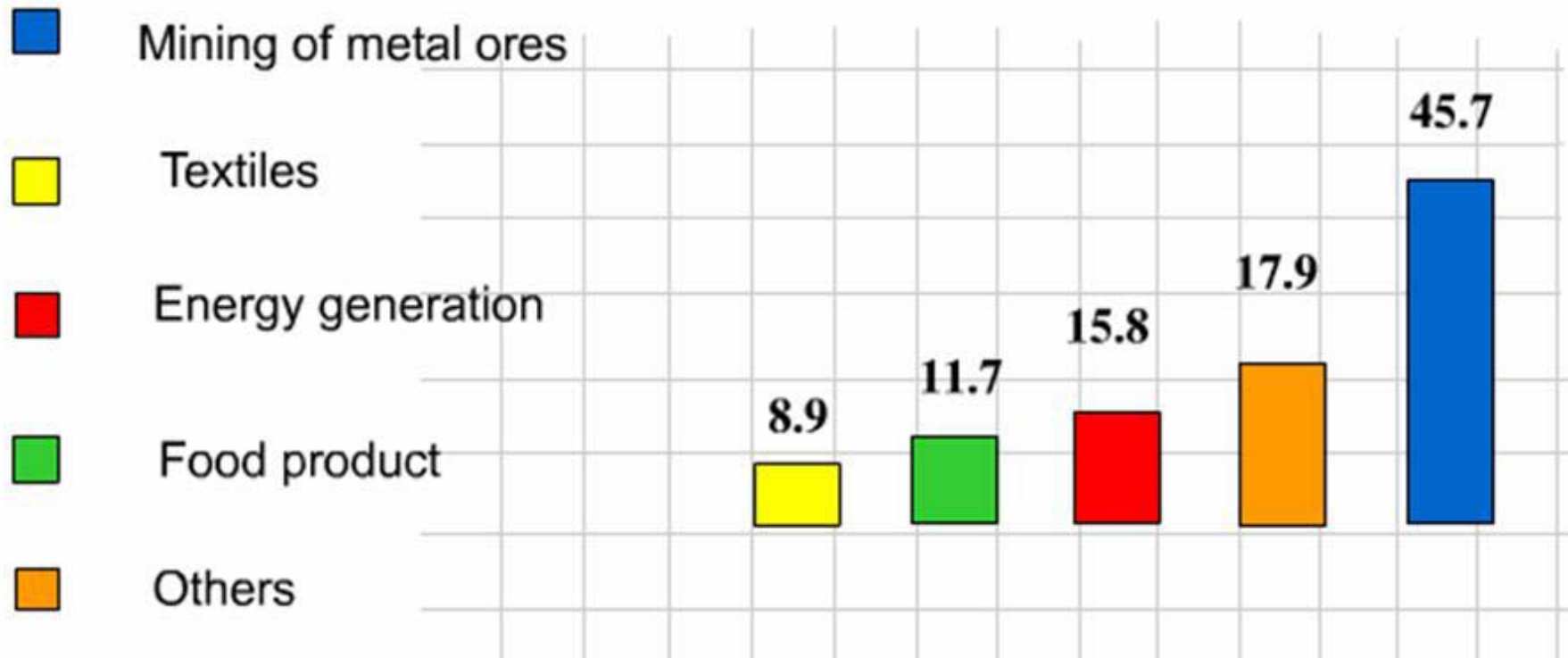
6. Recommendations (Regional)

7. Recommendations (Domestic)

Industries Analysis



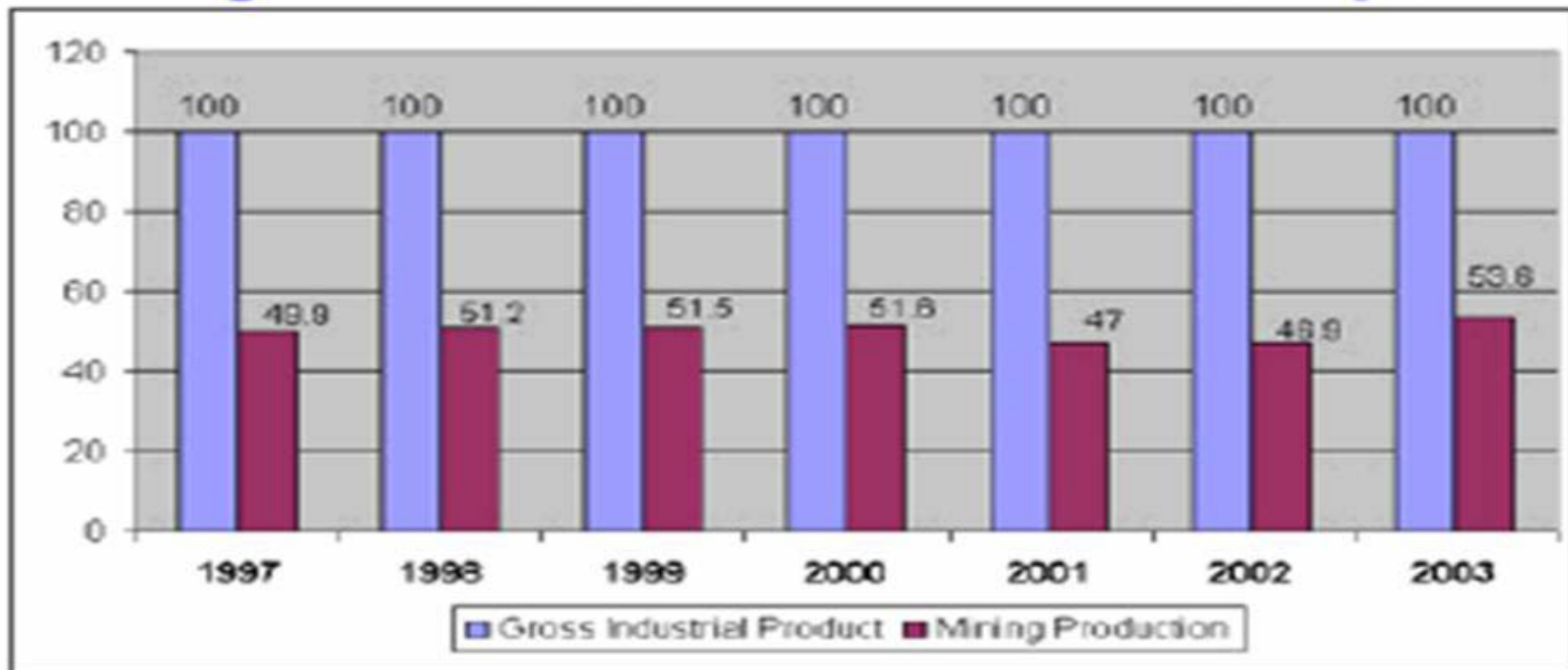
Large sectors of industry



Mining Industry



Mining Production as a Percentage of Mongolia's Overall Industrial Output



Mining - > **55%** of industrial output and more than **40%** of export earnings

Key Challenges



- **Stable Investment Environment**

- Mining is a high risk business with many uncertainties such as fluctuating prices, less than expected deposits and thus require close cooperation with government on legal and tax framework

- **Transportation Infrastructure**

- Need good transport to import heavy machineries and export raw or refined materials

Livestock Industry – Statistics



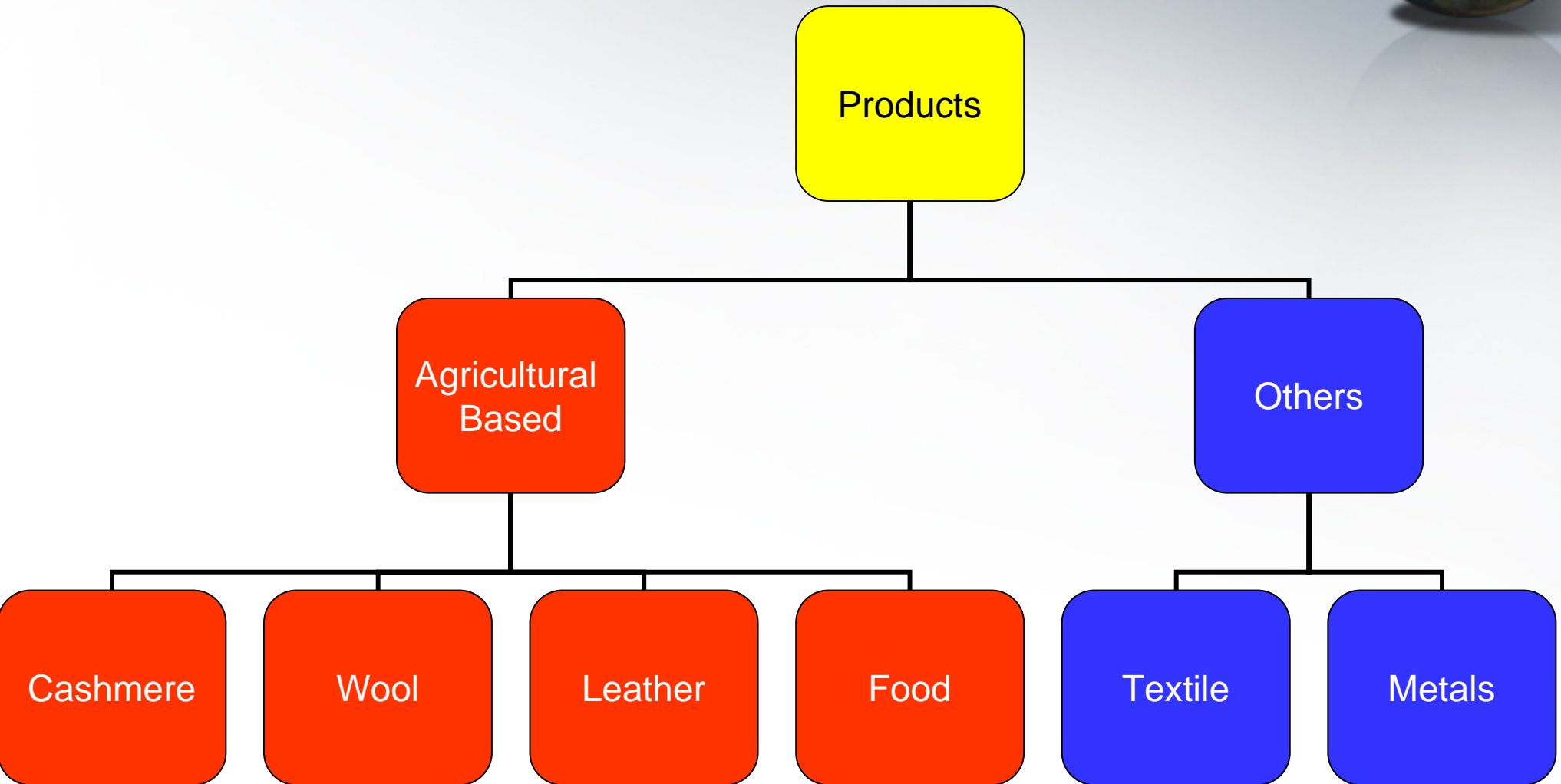
- Livestock contributes **79%** to the total agriculture output, and **49%** of population is involved in this industry
- **97%** of livestock are privately owned
- **256,000** families own livestock and **72%** of households depend on it as sole income

Key Challenges



- **Market : Not diversified**
 - Russia is the main market
 - High import tax, transport costs and monopoly cause export prices to decline over years
- **Vulnerability to weather changes / diseases**
 - Harsh climatic conditions
 - Lack of facilities to protect livestock
- **Perception of quality**
 - Need to improve the marketing and quality perception of Mongolian meat

Processing Industry



Cashmere Industry



S/N	Sources	% of supply
1	Mongolia	25
2	PRC (Inner Mongolia)	60
3	Others	15

Export Products : Raw Cashmere, Dehaired Cashmere, Garments, Blankets

Export Markets : Germany, England, Russia, France, Japan, U.S. and Korea

Import Materials : Machineries, Spare Parts, Accessories, Dye and Paints

Import Markets : PRC, Switzerland, Italy, Germany, Japan

Cost and Time Factors



Transportation Mode	Time, Days	Cost, US\$	Pre-Alert
Trans-Siberian Highway	30-40	2,300	30 days
Multi-modal (rail/sea/land)	30-40	2,000	7-10 days

Key Challenges



- **Transport Routes**
 - The Trans-Siberian route, although shorter in theory, has higher uncertainties in schedule inflexibility, cross-border delays and higher costs
- **Lack of Incentives for Exporters**
 - No incentives for major exporters
- **Difficulty in access to financial resources**
 - No preferential loan
 - High interest rate drains working capital (e.g. 1.5% monthly or 20% annual)



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5. Recommendations (International)

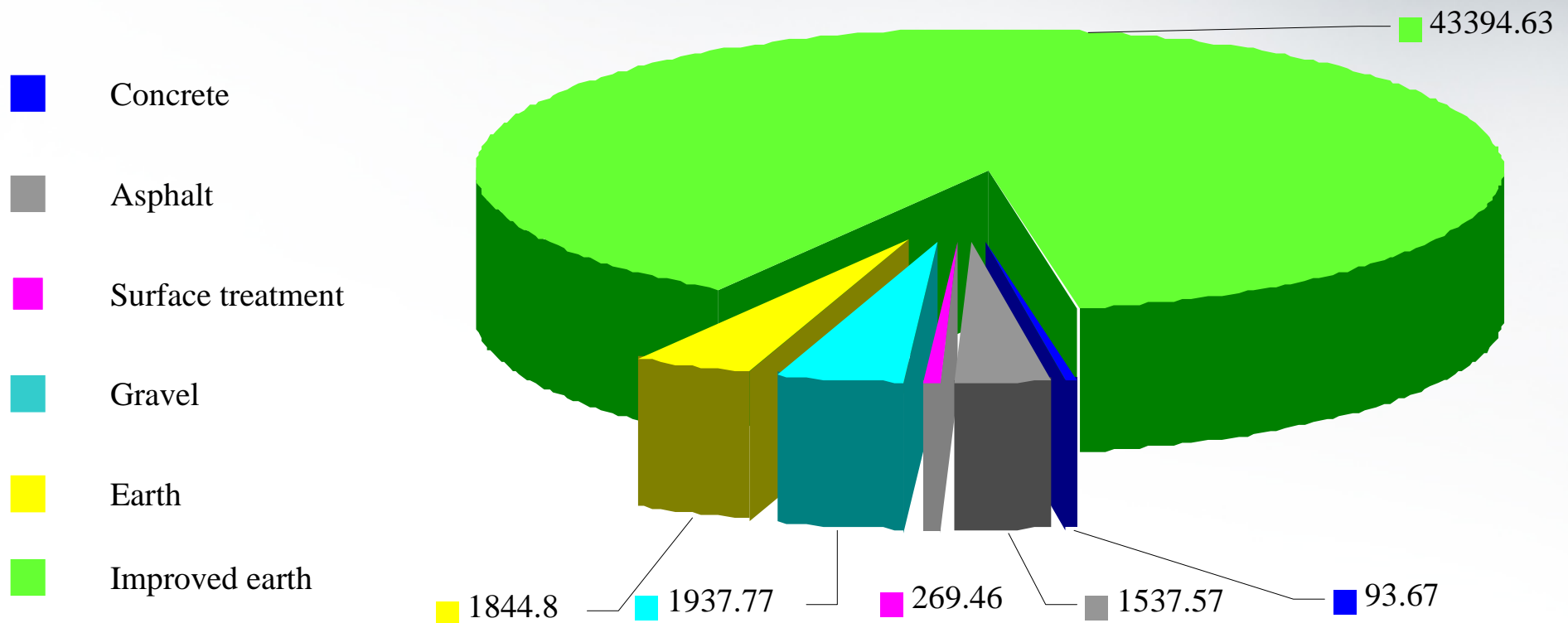
6. Recommendations (Regional)

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Types of Roads in Mongolia



**Mongolian Road Network
(49077.90km)**



8% of roads are paved

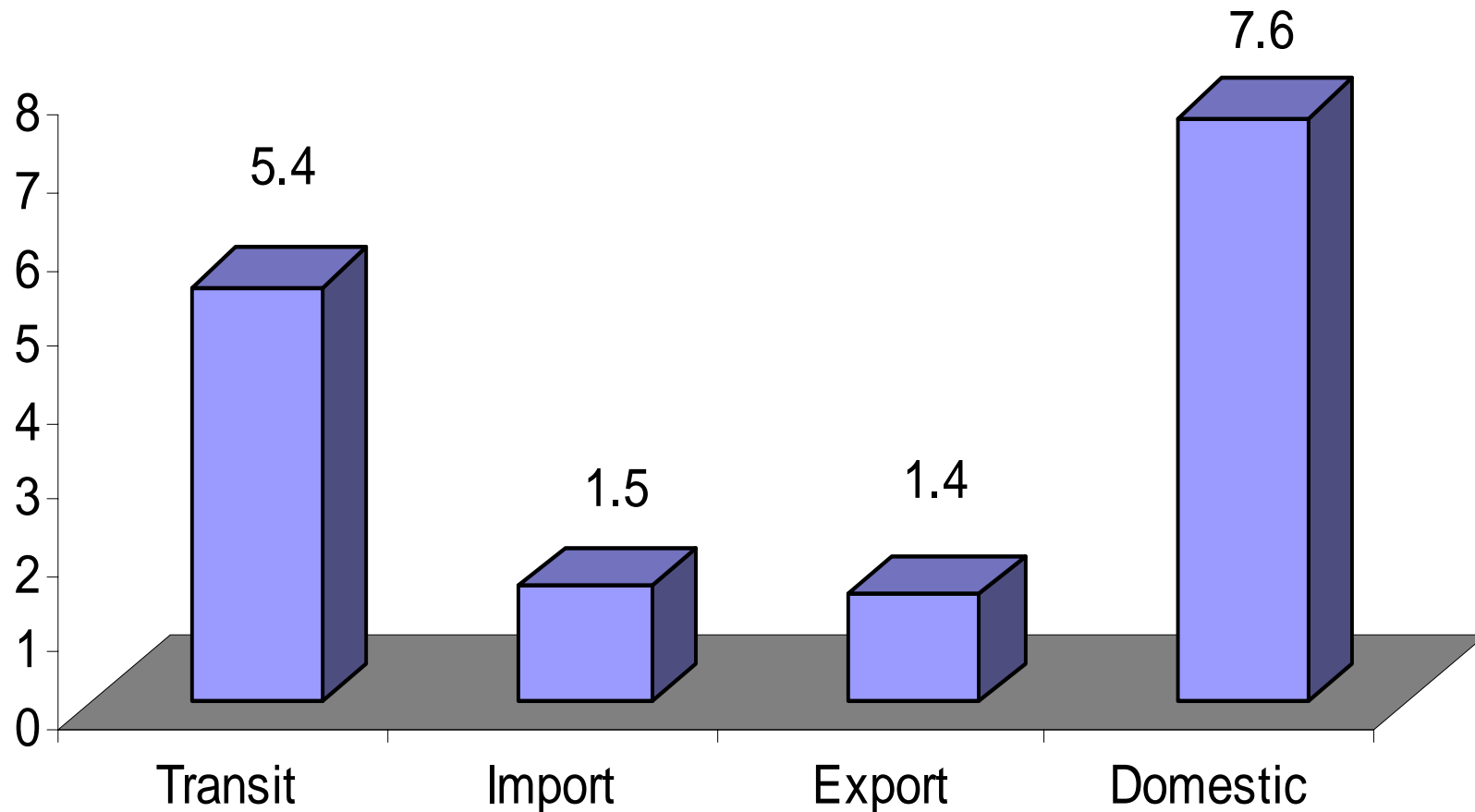
3.13km road / 100km² of land size



Freight Carried by Railways

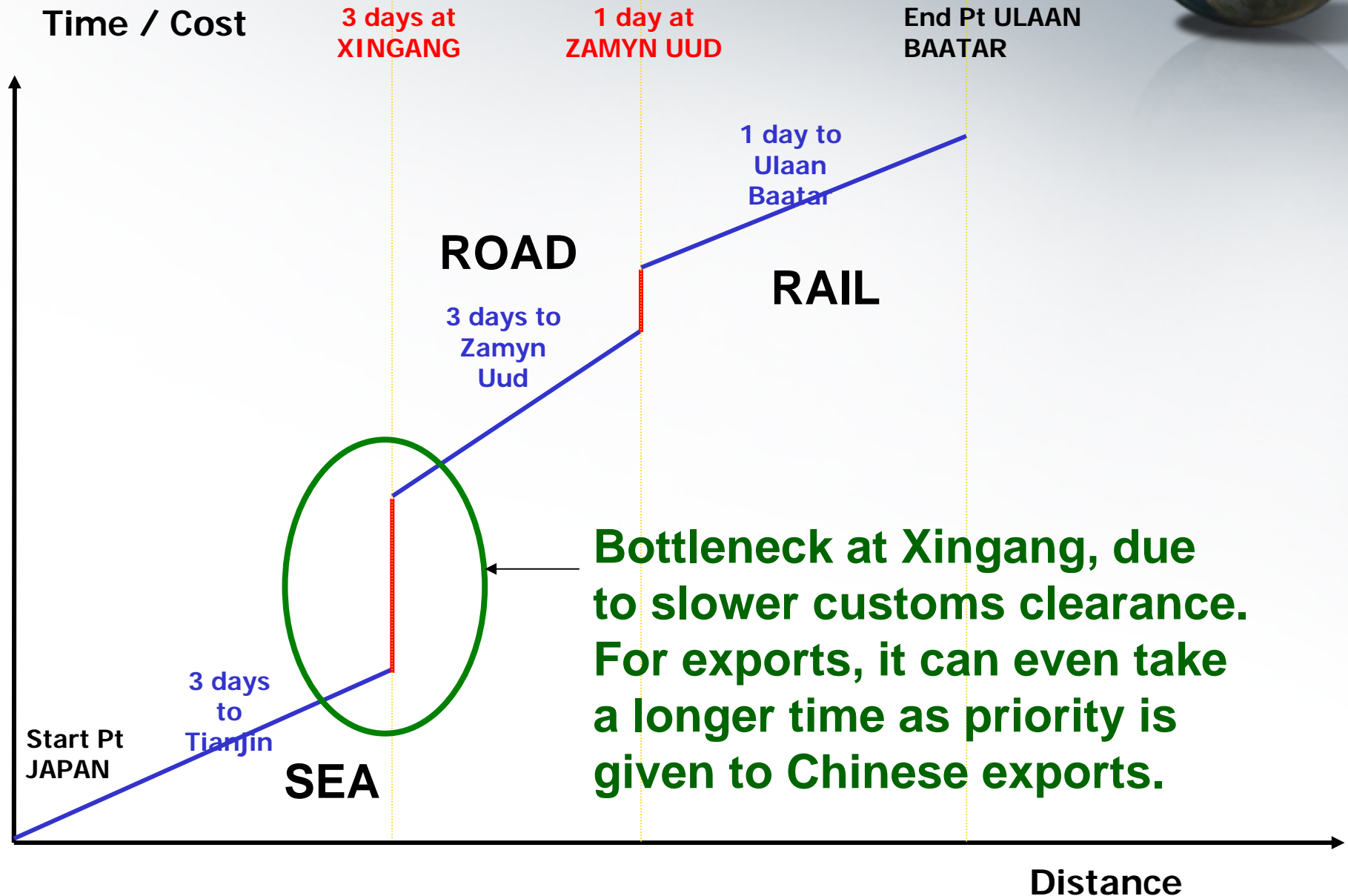


Freight Carried by Railways, in million tonnes, 2005



Time-Cost Distance Profile

(Japan to Mongolia)



The Logistics Industry



Uneven skillsets and performance in logistics companies



**Lack of Public
Warehouses /
Trucking Terminal**



**Information systems
are expensive**

Key Conclusion



1. Transit trade and corridors crucial to country's future economic success
2. Long term success of Mongolia is reliant on Trans Siberian Highway and potential competition from New Euro Asia Highway
3. Each of the Free Economic Zones have their relative strengths and weaknesses. They will require different strategies to become successful.



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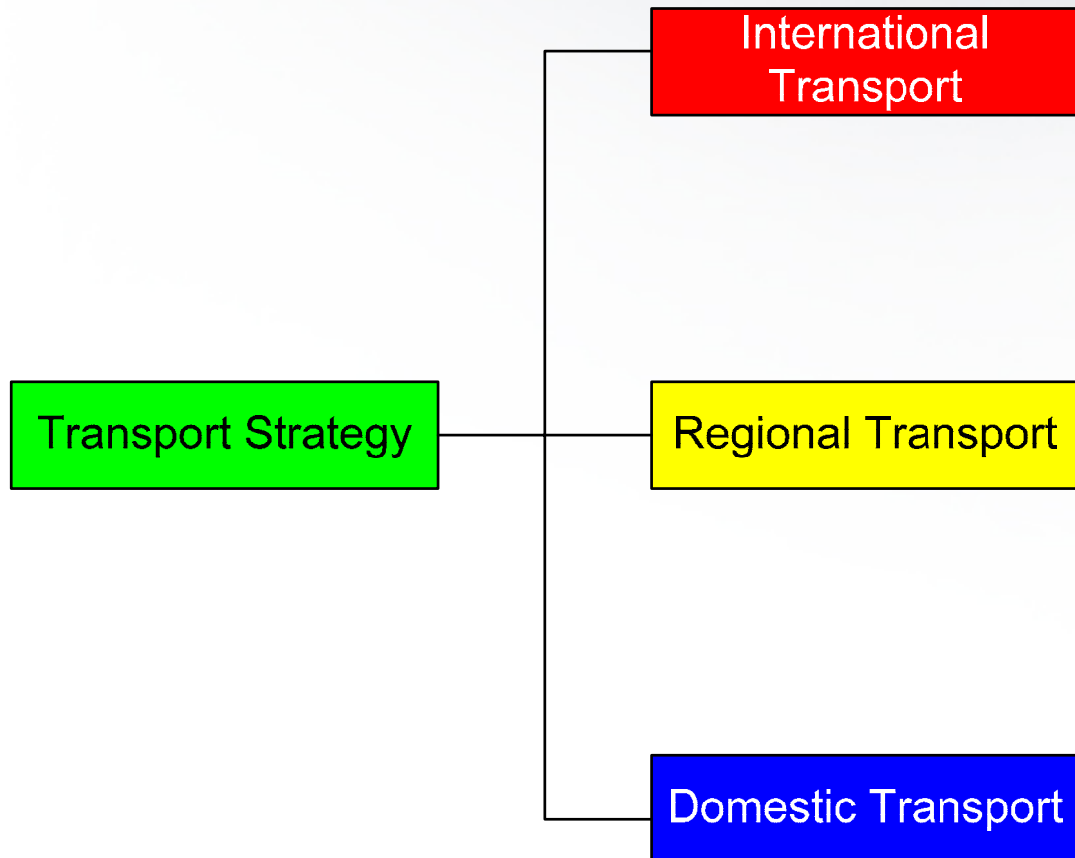


5. Recommendations (International)

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Recommendations Framework



International Transport



1. Capitalize on GSP Plus to strengthen FTZ and access to EU

2. Explore 3x trip / month for Mongolian Vector.

3. Negotiate long term railways contract with Russian authorities and resolve possible delays

Mongolia
n Vector

Friendshi
p Express

4. Express clearance for Mongolian imports and exports at



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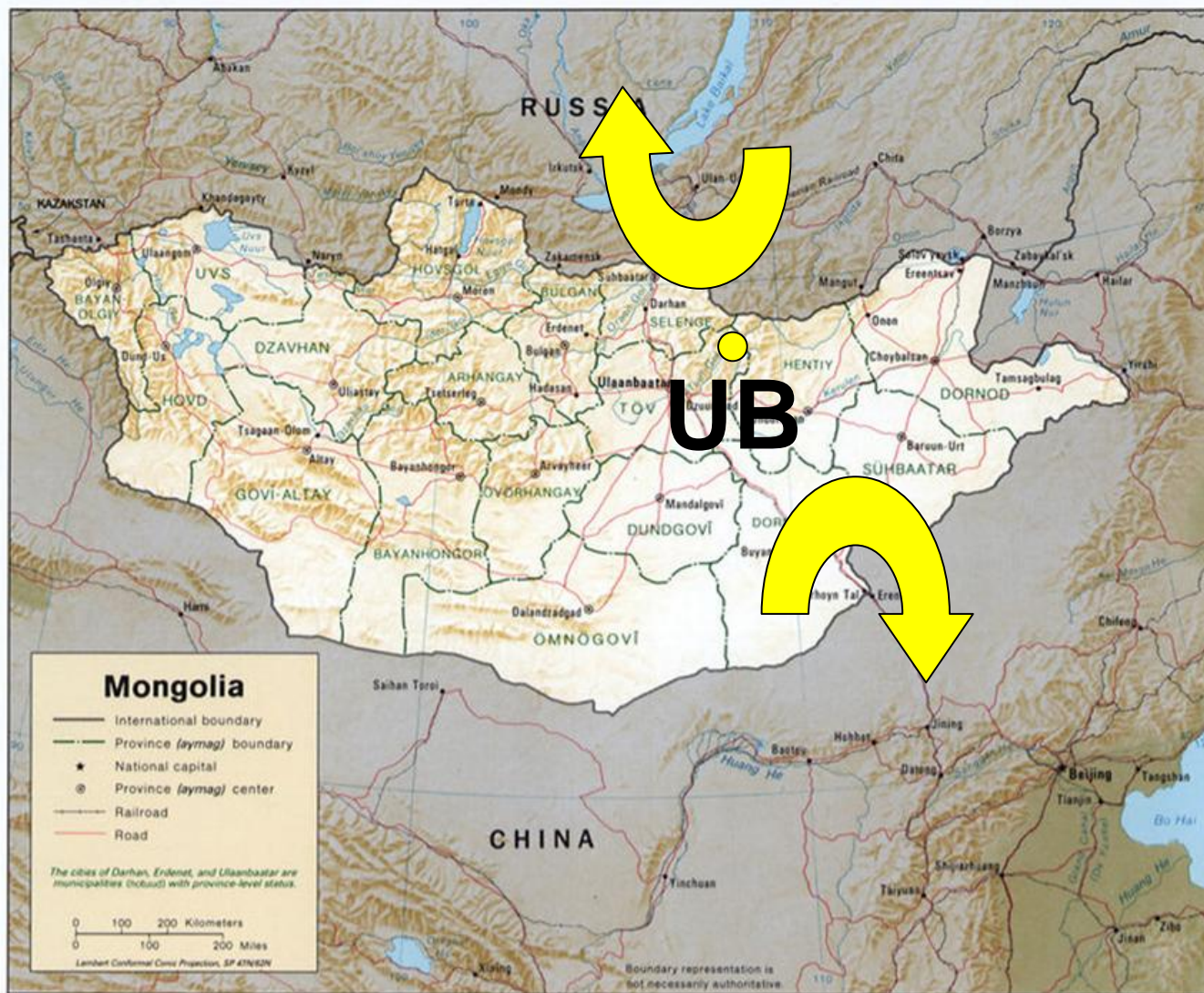
5. Recommendations (International)



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Regional Transport (Overall)



5. Container Transshipment Hub Services to link transit trade between Russia and PRC -> speed up the return of empty container

Regional Transport (North)



6. Position Altanbulag as the FTZ integrated with commercial and entertainment centre for Russian market



7. Explore the feasibility of railway connection between Altanbulag and Sukhbaatar

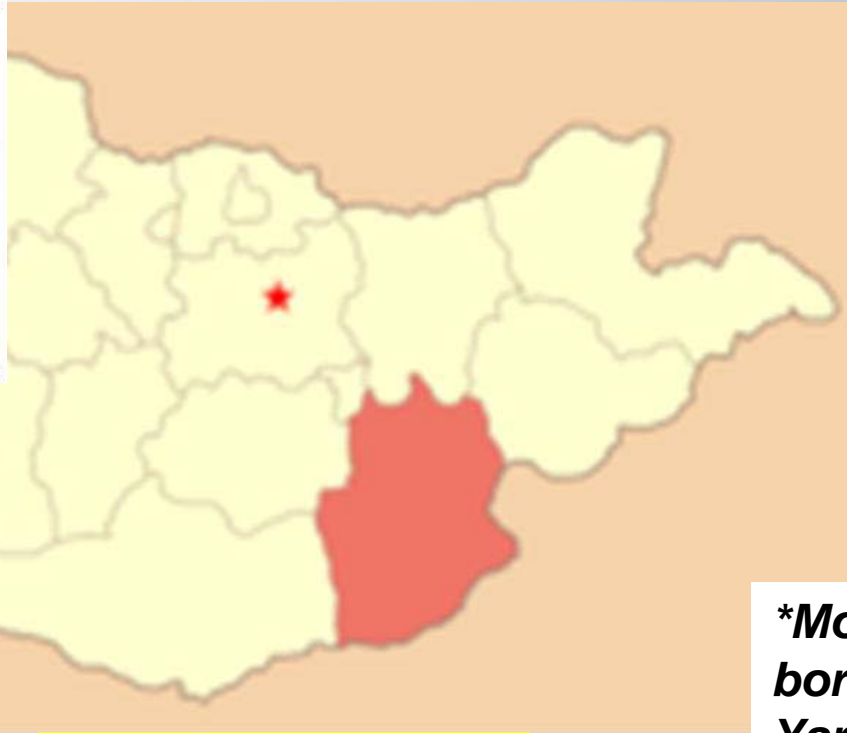


24 km road



Trans-
loading at
Sukhbaatar

Regional Transport (South)



10. NARTAM works with CRTA to assist in accession to TIR*

**Mongolian has six TIR border posts. They are Yarant, Tsagaan Nuur, Borshoo, Altanbulag, Ulihan and Ereentsav*

8. Position Zamyn-Uud (ZU) as the FTZ for manufacturing hub to attract Chinese investors

9. EDI between MCGA at ZU and Chinese customs

Regional Transport (South)



11. MFA to accelerate the tri-lateral transport agreement and Resolve the transport dispute at Omnugobi and Tavan Tolgoi

- **Promote ‘Desert Economy’ through encouraging foreign mining companies to explore and extract minerals, metals and crude oil. This is done through a favourable political and business environment to reduce risks. Omnugobi is not a FTZ, but can be a ‘Special Mining Zone’ .**

Regional Transport (West)



12. Develop
'cottage
industry' in
Bayan Ulgii and
position
Tsagaannuur
as the trading
hub

The western region of Mongolia is one of the most under-developed. *Harsh weather*, *long distance from the other economic centres*, *poor infrastructure* create many constraints to economic growth. Policies should be directed to stimulating the local industry, especially livestock and husbandry, as well as facilitating an alternative transit route between PRC and Russia.

Regional Transport (East)



13. Construct pipelines to PRC for the distribution of oil and gas

The eastern region of Mongolia offers another site for 'desert economy', with rich deposits of crude oil and gas. Currently, a Chinese company is investing in the exploration works. The pipeline will reduce the stress on the train capacity and provides a cost efficient and secured way to export the oil and gas to PRC.

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Domestic Transport (Overview)



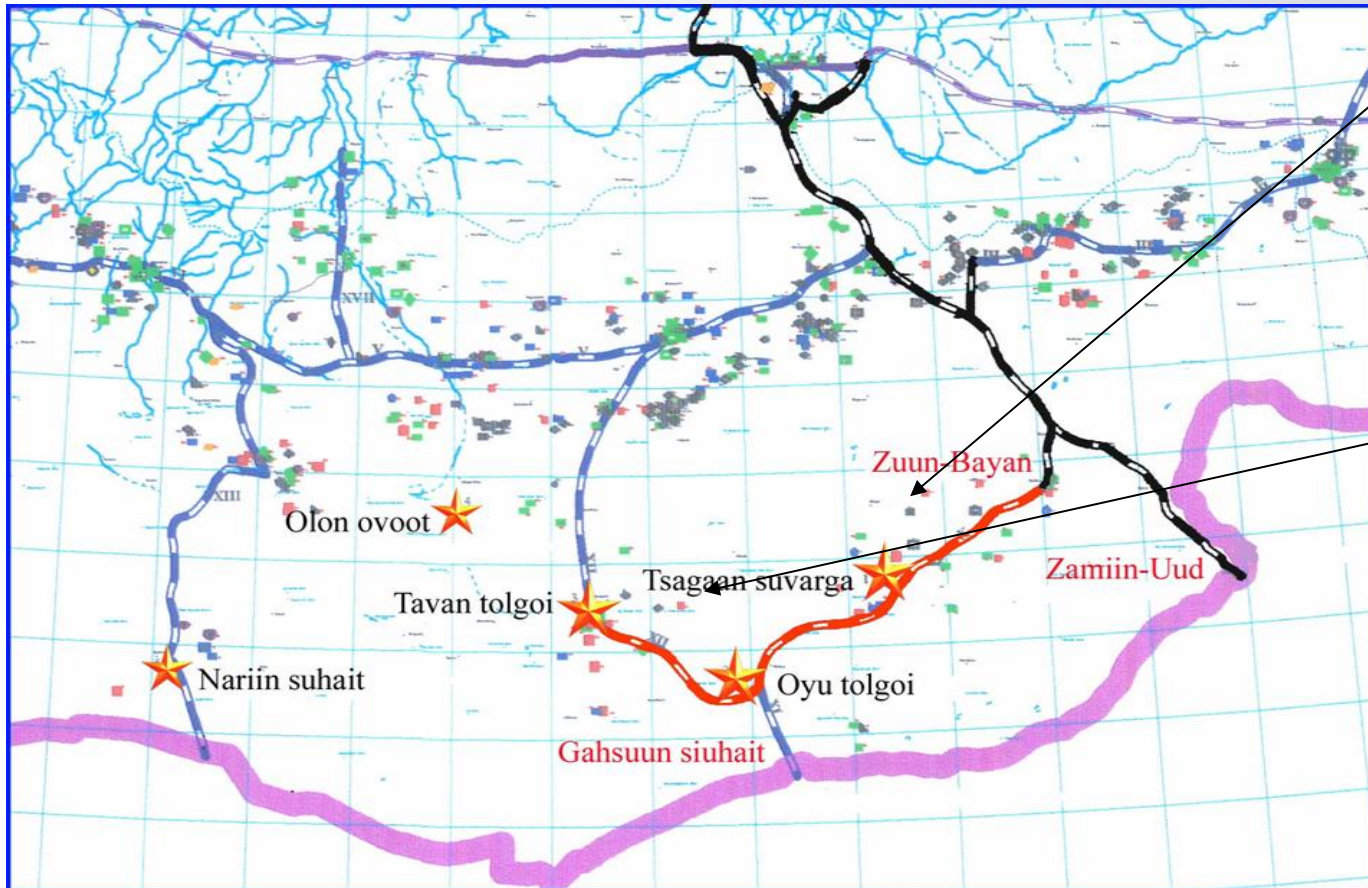
Domestic Transport (Rail – North-South)



14. Explore feasibility of double stack trains to increase current rail capacity.

15. Explore feasibility of UB-Baganuur double tracks or test pilot of double stack

Domestic Transport (Rail - South)



- 16. Extend the rail linking Zuun-Bayan to Oyu Tolgoi (332 km)
- 17. Extend the rail linking Oyu Tolgoi to Tavan Tolgoi (150 km)

Commodities like crude oil, coal and copper are bulky items, best transported using cost effective long distance mode of transport like rail.

Domestic Transport (Road)



1
2653
km

1
1009
km

2
789 km

3
1261
km

4
1121
km

5
713
km

Total – 7546 km

Source: Ministry of Road, Transport and Tourism, 2006



18. (AH3) Complete road from Choyr to Saynshand (225 km) and to Zamyn-Uud (225

Domestic Transport (Road)



21. Upgrade roads in the UB-Darhan-Erdenet triangle to provide intermodal transport



Domestic Transport (Road)



22. Construct road from Oyu Tolgoi to Gashuun-sukhait (130km) and Construct road from Oyu Tolgoi to Hanbogd (50 km)

Gashuun-sukhait is an important gateway in future for mining exports. Currently there are no roads at all.

Hanbogd will be an important town for accomodation, recreational and retail place for people working at Oyu Tolgoi.

Domestic Transport (Facilities)



23. Provide modern and integrated public warehouse in UB

24. Provide comprehensive trucking terminal in UB

25. Provide container terminal in UB

Domestic Transport (Industry)



Coordination between different stakeholders



Domestic Transport (Industry)



- 27. Classify logistics companies into ABC standards.
- 28. Improve education like Fiata courses to enhance human resource capability.



Singapore NGOs also offer a variety of logistics courses.

www.sla.org.sg

www.simm.org.sg

Domestic Transport (Industry)



29. Establish hygiene standards for food and meat processing industry, e.g. HACCP
30. Promote cold chain logistics to maintain quality during production, storage and distribution
31. Construct farmhouses to protect livestock from the natural elements (esp.in the regions of Bayan Ulgii,

Conclusion – An Integrated Solution



International Linkages

(The Arms)

Regional Linkages

(The Heart)

Domestic Linkages

(The Body)

